



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 31, 2002

### **S. 2734**

#### **Small Business Drought Relief Act**

*As ordered reported by the Senate Committee on Small Business and Entrepreneurship  
on July 24, 2002*

#### **SUMMARY**

S. 2734 would make Small Business Administration (SBA) loans available to non-agricultural small businesses that have suffered economic injury because of drought conditions through SBA's disaster loan program. Under the bill, such conditions would include low water levels in the Great Lakes region. The loans would be directed at small businesses that sell, distribute, market, or otherwise engage in commerce related to water and water resources, such as lakes, rivers, and streams.

Assuming appropriation of the necessary funds, CBO estimates that implementing S. 2734 would cost about \$25 million over the 2003-2007 period. S. 2734 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. S. 2734 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 2734 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Spending Under Current Law for SBA's Disaster Loan Program						
Estimated Authorization Level <sup>a</sup>	285	291	299	306	314	323
Estimated Outlays	338	314	307	304	312	321
Proposed Changes						
Estimated Authorization Level	0	5	5	5	5	5
Estimated Outlays	0	4	5	5	5	5
Spending Under S. 2734 for SBA's Disaster Loan Program						
Estimated Authorization Level	285	296	304	311	319	328
Estimated Outlays	338	318	312	309	317	326

a. The 2002 level is the amount appropriated for that year for SBA's Disaster Loan Program. Amounts shown for the 2003-2007 period are CBO's baseline estimates that reflect the 2002 appropriation adjusted for anticipated inflation.

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that S. 2734 will be enacted by the start of fiscal year 2003 and that the necessary funds will be appropriated for each year.

Most SBA loans under the disaster loan program are to repair physical damage caused by natural disasters. About 20 percent of the agency's loans go to small businesses to help them recover from economic injury caused by disasters. In recent years SBA has provided an average of about \$160 million a year in economic injury loans to small businesses.

SBA provides economic injury loans to farm-related businesses that are located in areas adversely affected by drought as designated by the Secretary of Agriculture. S. 2734 would authorize SBA to provide loans to nonfarm businesses affected by drought as well. State governors would have the authority to petition the SBA to declare certain counties or their entire state a disaster area because of drought. If SBA approves a state's petition, the agency could provide small businesses with economic injury loans in designated areas. In addition, S. 2734 would authorize SBA to provide loans to small businesses that have been adversely affected by low water levels in the Great Lakes.

CBO expects that recreation and water sports businesses, marinas, and other tourism businesses are the small businesses most likely to apply for loans under this expanded program. CBO estimates that demand for this expanded loan program would increase by 15 percent to 20 percent. An increase of this magnitude would result in \$25 million to \$30 million more economic injury loans being made each year. Under the Federal Credit Reform Act, the budgetary cost of loans is the net present value of cash flows including loan disbursement and repayments, net of defaults and recoveries. The average resulting subsidy cost of SBA disaster assistance loans is 17 percent. Thus, CBO estimates that the increase in loans under S. 2734 would cost about \$5 million a year.

SBA projects that demand for economic injury loans under this bill may increase by as much as 30 percent, but CBO expects that demand for these loans will not meet SBA's expectations—which would be equivalent to the increase experienced by SBA following the September 2001 terrorist attacks. The increase in demand for such loans, however, would depend on the number and duration of drought declarations that may occur. It would also be a challenge for the SBA to develop a definition of drought that is applicable across the country because of varying geographic weather patterns and normal climatic fluctuations. In addition, small businesses must prove that they have suffered substantial economic injury to be eligible for a loan. Because of the chronic nature of drought versus the sudden impact of other disasters, businesses may have trouble proving their eligibility for a loan.

CBO expects the demand for loans because of low water levels in the Great Lakes would not be very large either because the demand for a similar state program and other SBA programs has been small. In Michigan, for example, the state provided loans to marinas who were suffering economic harm because of low water levels. In the two-year period since 2000, 15 loans have been dispersed with an average loan amount of about \$40,000. In addition, the SBA has made loans available to Great Lakes businesses through its 7(a) general business loan program and demand for those loans has been low. Though the terms of economic injury loans are more favorable than the terms of the above-mentioned loans, CBO expects that increased demand for such loans would be small.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 2734 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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